

CITY OF MANLY
INDEPENDENT AUDITORS' REPORTS
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

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City of Manly

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Steven L. Reindl	Mayor	Jan 2004
Tim O'Keefe	Council Member	Jan 2004
Joyce Nuehring	Council Member	Jan 2004
Mary Goeken	Council Member	Jan 2006
Dave Cook	Council Member	Jan 2006
Lynn Nelson	Council Member	Jan 2006
Amy Yezek	City Clerk/Treasurer	Jan 2004
Doug Krull	City Attorney	Jan 2004
Mark Martie	Director of Public Works	Jan 2004
Bonnie Ward	Park Commissioner	Jan 2005
Leann Stoltenberg	Park Commissioner	Jan 2006
Jason Hausmann	Park Commissioner	Jan 2007
Christy Cooper	Library Trustee	Jul 2004
Rita Baird	Library Trustee	Jul 2004
Connie Hickie	Library Trustee	Jul 2006
Rosemary Broderson	Library Trustee	Jul 2006
Brenda Nesheim-Fuller	Library Trustee	Jul 2008
(After January 2004)		
Regan Banks	Mayor	Jan 2008
Mary Goeken	Council Member	Jan 2006
Lynn Nelson	Council Member	Jan 2006
Dave Cook	Council Member	Jan 2006
Tim O'Keefe	Council Member	Jan 2008
Joyce Nuehring	Council Member	Jan 2008
Amy Yezek	City Clerk/Treasurer	Jan 2005
Doug Krull	City Attorney	Jan 2005
Mark Martie	Director of Public Works	Jan 2005
Bonnie Ward	Park Commissioner	Jan 2005
Leann Stoltenberg	Park Commissioner	Jan 2006
Jason Hausmann	Park Commissioner	Jan 2007
Christy Cooper	Library Trustee	Jul 2004
Rita Baird	Library Trustee	Jul 2004
Connie Hickie	Library Trustee	Jul 2006
Rosemary Broderson	Library Trustee	Jul 2006
Brenda Nesheim-Fuller	Library Trustee	Jul 2008

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Manly, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Manly's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City of Manly have not been audited for all prior years. Accordingly we are unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2003 as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Manly as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 11, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our reports dated October 1, 2004 on our consideration of the City of Manly's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 19 through 21 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Manly's basic financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2003 as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lines Murphy & Company, P. L. C.
Certified Public Accountants
Osage, Iowa
October 1, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Manly provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, and financial information is only required to be audited every four years, much of the information is not easily comparable to prior years. However, in future years, comparisons may be more meaningful and go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

The City's total cash basis net assets decreased 11%, or approximately \$67,000, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities decreased approximately \$91,000 and the assets of the business type activities increased by approximately \$24,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and solid waste funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased sharply from a year ago, decreasing from \$.309 million to \$.214 million. The analysis that follows focuses on the cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		Year ended June 30, 2004
Receipts and transfers:		
Program receipts:		
Charges for service	\$	58
Operating grants, contributions and restricted interest		151
General receipts:		
Property tax		279
Local option sales tax		55
Grants and contributions not restricted to specific purposes		5
Unrestricted investment earnings		3
Other general receipts		24
Transfers, net		(26)
Total receipts and transfers	\$	549
Disbursements:		
Public safety	\$	213
Public works		158
Health and social services		4
Culture and recreation		73
Community and economic development		1
General government		128
Debt service		64
Total disbursements	\$	641
Decrease in cash basis net assets	\$	(92)
Cash basis net assets beginning of year		305
Cash basis net assets end of year	\$	213

The business type activity cash balance increased by approximately \$24,000 from the prior year because of rate increases.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		Year ended June 30, 2004
Receipts and transfers in:		
Program receipts:		
Charges for service:		
Water	\$	140
Sewer		64
Solid waste		70
General receipts:		
Unrestricted interest on investments		4
Transfers		26
Total receipts	\$	304
Disbursements:		
Water	\$	146
Sewer		64
Solid waste		70
Total disbursements and transfers	\$	280
Increase in cash basis net assets	\$	24
Cash basis net assets beginning of year		299
Cash basis net assets end of year	\$	323

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Manly completed the year, its governmental funds reported a combined fund balance of \$213,564, a decrease of more than \$94,000 below last year's total of \$309,243. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund is the general operating fund of the city. It is used to account for general tax receipts and general operating costs. During the fiscal year the cash balance decreased by \$18,374 to \$135,327 due to less funding from the state.
- The Local Option Sales Tax Fund was established to provide for property tax relief and for street improvements. The cash balance decreased by \$26,158 to \$54,763 during the fiscal year due to remodeling of the community center.
- The Road Use Tax Fund cash balance decreased by \$22,828 to \$18,386 during the fiscal year. This decrease was due to the purchase of a street sweeper.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$195 to \$212,653, due primarily to payment of water revenue bonds.
- The Sewer Fund cash balance increased by \$21,929 to \$25,931 due primarily to raised rates for fiscal year 2004.
- The Solid Waste Fund cash balance increased by \$2,027 to \$84,362 during the fiscal year due to normal fund growth.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not amend its budget. The budget was adopted by the March deadline in accordance with the Code of Iowa.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$969,000 in notes and other long-term debt, compared to approximately \$1,066,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2004	2003
General obligation notes	\$ 530	\$ 600
Revenue bonds/notes	439	466
Total	\$ 969	\$ 1,066

Debt decreased as a result of scheduled payments made during the fiscal year and no new debt has been issued.

The City continues to carry a general obligation bond rating of A33 assigned by national rating agencies to the City's debt since 1995. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$530,000 is significantly below its constitutional debt limit of \$1.6 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Manly's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The City's employment population growth has exceeded its employment growth during 1999-2004. Unemployment in the City now stands at 4.8 percent. This is considerably higher than the State's unemployment rate of 3.4 percent.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2004 compared with the national rate of 3.4 percent. Inflation has been modest here due in part to the slowing of the residential housing market and modest increases in energy prices in 2003-2004.

These indicators were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are \$1.3 million, an increase of 1% over the final 2004 budget. Property taxes (benefiting from the 2004 rate increases and increases in assessed valuations) are expected to lead this increase. The City will use these increases in receipts to finance programs we currently offer. Budgeted disbursements are expected to rise by approximately \$115,000. Increased wage and cost-of-living adjustments and increases in street construction and maintenance represent the largest increases. Also the city is having to make cuts because of major state cuts. The City has added no major new programs or initiatives to the 2005 budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Amy Yezek, City Clerk, P. O. Box 516, 106 South Broadway, City of Manly, Iowa.

City of Manly

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2004

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Service</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
Functions / Programs:				
Governmental activities:				
Public safety	\$ 212,808	\$ 27,352	\$ 25,349	\$ -
Public works	157,733	1,279	111,801	-
Health and social services	3,500	-	-	-
Culture and recreation	72,752	23,092	13,470	-
Community and economic development	576	5,881	-	-
General government	128,045	-	-	-
Debt service	64,008	-	-	-
Total governmental activities	<u>\$ 639,422</u>	<u>\$ 57,604</u>	<u>\$ 150,620</u>	<u>\$ -</u>
Business type activities:				
Water	\$ 145,909	\$ 139,936	\$ -	\$ -
Sewer	63,653	63,922	-	-
Solid waste	70,462	70,547	-	-
Total business type activities	<u>\$ 280,024</u>	<u>\$ 274,405</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$ 919,446</u>	<u>\$ 332,009</u>	<u>\$ 150,620</u>	<u>\$ -</u>
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Grants and contributions not restricted to specific purpose				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year, as restated				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Debt service				

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
--	--	--

Governmental		Business Type	
Activities	Activities		Total
\$ (160,107)	\$ -	\$	(160,107)
(44,653)	-		(44,653)
(3,500)	-		(3,500)
(36,190)	-		(36,190)
5,305	-		5,305
(128,045)	-		(128,045)
(64,008)	-		(64,008)
<u>\$ (431,198)</u>	<u>\$ -</u>	<u>\$</u>	<u>(431,198)</u>
\$ -	\$ (5,973)	\$	(5,973)
-	269		269
-	85		85
<u>\$ -</u>	<u>\$ (5,619)</u>	<u>\$</u>	<u>(5,619)</u>
<u>\$ (431,198)</u>	<u>\$ (5,619)</u>	<u>\$</u>	<u>(436,817)</u>

\$ 227,299	\$ -	\$	227,299
4,255	-		4,255
47,027	-		47,027
55,085	-		55,085
4,762	-		4,762
3,252	3,694		6,946
23,525	-		23,525
(25,686)	25,686		-
<u>\$ 339,519</u>	<u>\$ 29,380</u>	<u>\$</u>	<u>368,899</u>
<u>\$ (91,679)</u>	<u>\$ 23,761</u>	<u>\$</u>	<u>(67,918)</u>
<u>305,243</u>	<u>299,185</u>		<u>604,428</u>
<u>\$ 213,564</u>	<u>\$ 322,946</u>	<u>\$</u>	<u>536,510</u>

\$ 992 \$ 121,195 \$ 122,187

Exhibit B

City of Manly

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2004

	General	Special Road Use Tax	Revenue Local Option Sales Tax	Debt Service	Other Nonmajor Governmental Funds	Total
Receipts:						
Property tax	\$ 173,451	\$ -	\$ -	\$ 47,027	\$ 52,864	\$ 273,342
Tax increment financing collections	-	-	-	-	4,255	4,255
Other city tax	984	-	55,085	-	-	56,069
Licenses and permits	3,415	-	-	-	-	3,415
Use of money and property	2,706	-	546	-	-	3,252
Intergovernmental	51,477	111,801	-	-	3,278	166,556
Charges for service	6,553	-	-	-	-	6,553
Special assessments	489	-	-	-	-	489
Miscellaneous	57,919	1,279	300	-	-	59,498
Total receipts	\$ 296,994	\$ 113,080	\$ 55,931	\$ 47,027	\$ 60,397	\$ 573,429
Disbursements:						
Operating:						
Public safety	\$ 169,482	\$ -	\$ -	\$ -	\$ 43,326	\$ 212,808
Public works	-	135,908	13,797	-	8,028	157,733
Health and social services	-	-	3,500	-	-	3,500
Culture and recreation	72,541	-	-	-	211	72,752
Community and economic development	576	-	-	-	-	576
General government	87,958	-	33,520	-	6,567	128,045
Debt service	-	-	-	64,008	-	64,008
Total disbursements	\$ 330,557	\$ 135,908	\$ 50,817	\$ 64,008	\$ 58,132	\$ 639,422
Excess (deficiency) of receipts over (under) disbursements	\$ (33,563)	\$ (22,828)	\$ 5,114	\$ (16,981)	\$ 2,265	\$ (65,993)
Other financing sources (uses):						
Operating transfers in	\$ 25,097	\$ -	\$ -	\$ 15,355	\$ 364	\$ 40,816
Operating transfers out	(9,908)	-	(31,272)	-	(25,322)	(66,502)
Total other financing sources (uses)	\$ 15,189	\$ -	\$ (31,272)	\$ 15,355	\$ (24,958)	\$ (25,686)
Net change in cash balances	\$ (18,374)	\$ (22,828)	\$ (26,158)	\$ (1,626)	\$ (22,693)	\$ (91,679)
Cash balances beginning of year	153,701	41,214	80,921	2,618	26,789	305,243
Cash balances end of year	\$ 135,327	\$ 18,386	\$ 54,763	\$ 992	\$ 4,096	\$ 213,564
Cash Basis Fund Balances						
Reserved:						
Debt service	\$ -	\$ -	\$ -	\$ 992	\$ -	\$ 992
Unreserved:						
General fund	135,327	-	-	-	-	135,327
Special revenue funds	-	18,386	54,763	-	96	73,245
Permanent fund	-	-	-	-	4,000	4,000
Total cash basis fund balances	\$ 135,327	\$ 18,386	\$ 54,763	\$ 992	\$ 4,096	\$ 213,564

See notes to financial statements.

Exhibit C

City of Manly

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2004

	Enterprise Funds			
	Water	Sewer	Solid Waste	Total
Operating receipts:				
Charges for service	\$ 139,936	\$ 63,922	\$ 70,547	\$ 274,405
Operating disbursements:				
Business type activities	\$ 145,909	\$ 63,653	\$ 70,462	\$ 280,024
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ (5,973)	\$ 269	\$ 85	\$ (5,619)
Non-operating receipts:				
Interest on investments	\$ 1,752	\$ -	\$ 1,942	\$ 3,694
Excess (deficiency) of receipts over (under) disbursements	\$ (4,221)	\$ 269	\$ 2,027	\$ (1,925)
Operating transfers in	4,026	21,660	-	25,686
Net change in cash balances	\$ (195)	\$ 21,929	\$ 2,027	\$ 23,761
Cash balances beginning of year	212,848	4,002	82,335	299,185
Cash balances end of year	\$ 212,653	\$ 25,931	\$ 84,362	\$ 322,946
Cash Basis Fund Balances				
Reserved for debt service	\$ 97,163	\$ 24,032	\$ -	\$ 121,195
Unreserved	115,490	1,899	84,362	201,751
Total cash basis fund balances	\$ 212,653	\$ 25,931	\$ 84,362	\$ 322,946

See notes to financial statements.

City of Manly

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Manly is a political subdivision of the State of Iowa located in Worth County. It was first incorporated in 1877 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Manly has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board Criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Worth County Assessor's Conference Board, City Assessor's Conference Board, Worth County Emergency Management Commission, and Worth County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for Local Option Sales Tax collected from the State.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Solid Waste Fund is used to account for garbage collection services to the citizens of Manly.

C. Measurement Focus and Basis of Accounting

The City of Manly maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public safety function, the public works function, the culture and recreation function, the community and economic development function, the general government function, and the debt service function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all Category 1, which means the investments are insured or registered or the securities are held by the City or its agent in the City's name.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation notes and revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 70,000	\$ 27,960	\$ 32,578	\$ 22,930	\$ 102,578	\$ 50,890
2006	80,000	24,480	32,956	21,157	112,956	45,637
2007	80,000	20,468	33,354	19,352	113,354	39,820
2008	80,000	16,415	33,772	17,513	113,772	33,928
2009	50,000	12,305	34,211	15,640	84,211	27,945
2010-2014	170,000	19,527	158,441	49,290	328,441	68,817
2015-2019	-	-	113,813	6,275	113,813	6,275
Total	\$ 530,000	\$ 121,155	\$ 439,125	\$ 152,157	\$ 969,125	\$ 273,312

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate sewer revenue note sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers of 25% of the amount required in the sewer revenue note sinking account to a revenue reserve account and \$1,000 to the improvement fund account within the Enterprise Funds shall be made until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. The City's contribution to IPERS for the year ended June 30, 2004, was \$16,861, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 8,135
Compensatory	<u>2,451</u>
Total	<u>\$10,586</u>

This liability has been computed based on rates of pay in effect at June 30, 2004.

City employees also accumulate a limited amount of earned but unused sick leave hours for subsequent use. However, sick leave time is canceled if an employee leaves his or her employment with the City.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Local Option Tax Employee Benefits	\$ 3,801 <u>21,296</u> <u>\$ 25,097</u>
Special Revenue: Police Computers	General	<u>\$ 364</u>
Debt Service	General Special Revenue: Local Option Sales Tax	\$ 9,543 <u>5,812</u> <u>\$ 15,355</u>
Enterprise: Water Sewer	Special Revenue: Tax Increment Financing Special Revenue: Local Option Sales Tax	\$ 4,026 <u>21,660</u> <u>\$ 25,686</u>
Total		<u>\$ 66,502</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$2,215 during the year ended June 30, 2004.

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the past fiscal year.

(9) Deficit Fund Balances

The Special Revenue Fund, Housing Rehabilitation Account had a deficit balance of \$5,179 at June 30, 2004. The deficit balance was a result of loan payments made before the reimbursements are received. The deficit will be eliminated through reimbursements from the Iowa Department of Economic Development.

(10) Construction Commitments

As of June 30, 2004, the City, including had the following commitments with respect to the following projects:

	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Water tower project	\$ 14,560	August 8, 2004

The city also has a yearly renewable contract with Municipal Pipe and Tool Company for repairs and maintenance on sewers and a yearly renewable contract with Waste Management for recycling. Payments during the year ended June 30, 2004, were \$3,033 and \$12,582, respectively.

(11) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

City of Manly
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 273,342	\$ -	\$ -
Tax increment financing collections	4,255	-	-
Other city tax	56,069	-	-
Licenses and permits	3,415	-	-
Use of money and property	3,252	3,694	-
Intergovernmental	166,556	-	-
Charges for service	6,553	274,405	-
Special assessments	489	-	-
Miscellaneous	59,498	-	-
Total receipts	<u>\$ 573,429</u>	<u>\$ 278,099</u>	<u>\$ -</u>
Disbursements:			
Public safety	\$ 212,808	\$ -	\$ -
Public works	157,733	-	-
Health and social services	3,500	-	-
Culture and recreation	72,752	-	-
Community and economic development	576	-	-
General government	128,045	-	-
Debt service	64,008	-	-
Business type activities	-	280,024	-
Total disbursements	<u>\$ 639,422</u>	<u>\$ 280,024</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (65,993)	\$ (1,925)	\$ -
Other financing sources (uses), net	<u>(25,686)</u>	<u>25,686</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing sources (uses)	\$ (91,679)	\$ 23,761	\$ -
Balances beginning of year	<u>305,243</u>	<u>299,185</u>	<u>-</u>
Balances end of year	<u>\$ 213,564</u>	<u>\$ 322,946</u>	<u>\$ -</u>

See accompanying independent auditors' report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 273,342	\$ 270,576	\$ 270,576	\$ 2,766
4,255	-	-	4,255
56,069	59,912	59,912	(3,843)
3,415	1,275	1,275	2,140
6,946	2,400	2,400	4,546
166,556	147,703	147,703	18,853
280,958	308,303	308,303	(27,345)
489	-	-	489
59,498	37,600	37,600	21,898
<u>\$ 851,528</u>	<u>\$ 827,769</u>	<u>\$ 827,769</u>	<u>\$ 23,759</u>
\$ 212,808	\$ 179,215	\$ 179,215	\$ (33,593)
157,733	108,054	108,054	(49,679)
3,500	3,500	3,500	-
72,752	45,767	45,767	(26,985)
576	550	550	(26)
128,045	84,099	84,099	(43,946)
64,008	63,858	63,858	(150)
280,024	290,249	290,249	10,225
<u>\$ 919,446</u>	<u>\$ 775,292</u>	<u>\$ 775,292</u>	<u>\$ (144,154)</u>
\$ (67,918)	\$ 52,477	\$ 52,477	\$ (120,395)
-	-	-	-
\$ (67,918)	\$ 52,477	\$ 52,477	\$ (120,395)
604,428	677,922	677,922	(73,494)
<u>\$ 536,510</u>	<u>\$ 730,399</u>	<u>\$ 730,399</u>	<u>\$ (193,889)</u>

City of Manly

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the budget was not amended.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public safety function, the public works function, the culture and recreation function, the community and economic development function, the general government function, and the debt service function.

City of Manly

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2004

	Special		Revenue			Permanent		
	Employee Benefits	Tax Increment Financing	Housing Rehabilitation	Police Computers	Cemetery Perpetual Care		Total	
Receipts:								
Property tax	\$ 52,864	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 52,864	
Tax increment financing collections	-	4,255	-	-	-	-	4,255	
Intergovernmental	-	-	-	3,278	-	-	3,278	
Total receipts	\$ 52,864	\$ 4,255	\$ -	\$ 3,278	\$ -	\$ -	\$ 60,397	
Disbursements:								
Operating:								
Public safety	\$ 39,692	\$ -	\$ -	\$ 3,634	\$ -	\$ -	\$ 43,326	
Public works	8,028	-	-	-	-	-	8,028	
Culture and recreation	211	-	-	-	-	-	211	
General government	4,358	-	2,209	-	-	-	6,567	
Total disbursements	\$ 52,289	\$ -	\$ 2,209	\$ 3,634	\$ -	\$ -	\$ 58,132	
Excess (deficiency) of receipts over (under) disbursements	\$ 575	\$ 4,255	\$ (2,209)	\$ (356)	\$ -	\$ -	\$ 2,265	
Other financing sources (uses)								
Operating transfers in	\$ -	\$ -	\$ -	\$ 364	\$ -	\$ -	\$ 364	
Operating transfers out	(21,296)	(4,026)	-	-	-	-	(25,322)	
Total other financing sources (uses)	\$ (21,296)	\$ (4,026)	\$ -	\$ 364	\$ -	\$ -	\$ (24,958)	
Net change in cash balances	\$ (20,721)	\$ 229	\$ (2,209)	\$ 8	\$ -	\$ -	\$ (22,693)	
Cash balances beginning of year	25,759	-	(2,970)	-	4,000		26,789	
Cash balances end of year	\$ 5,038	\$ 229	\$ (5,179)	\$ 8	\$ 4,000	\$ -	\$ 4,096	
Cash Basis Fund Balances								
Unreserved:								
Special revenue funds	\$ 5,038	\$ 229	\$ (5,179)	\$ 8	\$ -	\$ -	\$ 96	
Permanent	-	-	-	-	4,000		4,000	
Total cash basis fund balances	\$ 5,038	\$ 229	\$ (5,179)	\$ 8	\$ 4,000	\$ -	\$ 4,096	

See accompanying independent auditors' report.

City of Manly
Schedule of Indebtedness
Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
1998 Street Improvement	June 1, 1998	4.20-4.80%	\$ 300,000
Watermain and Firetruck	March 1, 2000	4.90-5.70%	530,000
Total			
Revenue bonds/notes:			
Water Tower	Feb 6, 1979	5.00%	\$ 262,000
Water	March 1, 2000	5.10-6.15%	250,000
Sewer	March 1, 2000	5.10-5.80%	100,000
Total			

See accompanying independent auditors' report.

Schedule 2

Balance Beginning of Year		Issued During Year		Redeemed During Year		Balance End of Year		Interest Paid		Interest Due and Unpaid
\$ 165,000	\$	-	\$	30,000	\$	135,000	\$	7,698	\$	-
435,000		-		40,000		395,000		23,708		-
\$ 600,000	\$	-	\$	70,000	\$	530,000	\$	31,406	\$	-
\$ 166,342	\$	-	\$	7,217	\$	159,125	\$	7,956	\$	-
230,000		-		10,000		220,000		13,312		-
70,000		-		10,000		60,000		3,920		-
\$ 466,342	\$	-	\$	27,217	\$	439,125	\$	25,188	\$	-

City of Manly
Bond and Note Maturities
June 30, 2004

General Obligation Notes					
Year Ending June 30,	Street Improvement		Watermain and Firetruck		
	Issued June 1, 1998		Issued March 1, 2000		
	Interest Rates	Amount	Interest Rates	Amount	Total
2005	4.60%	\$ 30,000	5.25%	\$ 40,000	\$ 70,000
2006	4.65%	35,000	5.30%	45,000	80,000
2007	4.70%	35,000	5.35%	45,000	80,000
2008	4.80%	35,000	5.40%	45,000	80,000
2009		-	5.45%	50,000	50,000
2010		-	5.55%	55,000	55,000
2011		-	5.65%	55,000	55,000
2012		-	5.70%	60,000	60,000
Total		<u>\$ 135,000</u>		<u>\$ 395,000</u>	<u>\$ 530,000</u>

Year Ending June 30,	Revenue Bonds		Revenue Notes				
	Water Tower		Water Revenue		Sewer Revenue		
	Issued February 6, 1979		Issued March 1, 2000		Issued March 1, 2000		
	Interest		Interest		Interest		Total
	Rates	Amount	Rates	Amount	Rates	Amount	
2005	5.00%	\$ 7,578	5.40%	\$ 15,000	5.50%	\$ 10,000	\$ 32,578
2006	5.00%	7,956	5.50%	15,000	5.55%	10,000	32,956
2007	5.00%	8,354	5.55%	15,000	5.60%	10,000	33,354
2008	5.00%	8,772	5.60%	15,000	5.65%	10,000	33,772
2009	5.00%	9,211	5.65%	15,000	5.70%	10,000	34,211
2010	5.00%	9,671	5.70%	15,000	5.80%	10,000	34,671
2011	5.00%	10,155	5.80%	20,000	-	-	30,155
2012	5.00%	10,663	5.85%	20,000	-	-	30,663
2013	5.00%	11,196	5.90%	20,000	-	-	31,196
2014	5.00%	11,756	6.00%	20,000	-	-	31,756
2015	5.00%	12,343	6.10%	25,000	-	-	37,343
2016	5.00%	12,960	6.15%	25,000	-	-	37,960
2017	5.00%	13,609	-	-	-	-	13,609
2018	5.00%	14,289	-	-	-	-	14,289
2019	5.00%	10,612	-	-	-	-	10,612
Total		<u>\$ 159,125</u>		<u>\$ 220,000</u>		<u>\$ 60,000</u>	<u>\$ 439,125</u>

See accompanying independent auditors' report.

City of Manly

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Fiscal Year

	<u>2004</u>
Receipts:	
Property tax	\$ 273,342
Tax increment financing collections	4,255
Other city tax	56,069
Licenses and permits	3,415
Use of money and property	3,252
Intergovernmental	166,556
Charges for service	6,553
Special assessments	489
Miscellaneous	<u>59,498</u>
Total	<u>\$ 573,429</u>
Disbursements:	
Operating:	
Public safety	\$ 212,808
Public works	157,733
Health and social services	3,500
Culture and recreation	72,752
Community and economic development	576
General government	128,045
Debt service	<u>64,008</u>
Total	<u>\$ 639,422</u>

See accompanying independent auditors' report.

Independent Auditors' Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Manly, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated October 1, 2004. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003. Except as noted in the Independent Auditors' report, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Manly's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior statutory comments have been resolved except for items III-B-04 and III-J-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Manly's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Manly's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04, II-B-04, and II-C-04 are material weaknesses. Prior reportable conditions have been resolved except for items II-A-04, II-B-04, and II-C-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Manly and other parties to whom the City of Manly may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Manly during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Lines Murphy & Company, P. L. C.
Certified Public Accountants
Manly, Iowa
October 1, 2004

City of Manly

Schedule of Findings

Year ended June 30, 2004

Part I: Summary of the Independent Auditors' Results:

- (a) A qualified opinion was issued on the financial statements since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003. The financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

City of Manly

Schedule of Findings

Year ended June 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- II-A-04 Segregation of Duties – Separately Maintained Records – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures including separately maintained records to obtain the maximum internal control possible under the circumstances.

Response – We will consider this. Also, we plan to assume responsibility for all accounting functions and separately maintained records.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-04 Records of Accounts – The Fire Department, the library, the parks and recreation, and the cemetery maintained their respective accounting records pertaining to the operations of respective funds. The transactions and resulting balances are not recorded in the Clerk's accounting records. Chapter 384.20 of the Code of Iowa states in part that "a City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose."

Recommendation – For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be recorded in the Clerk's accounting records.

Response – We plan to assume responsibility for all separately maintained accounting records.

Conclusion – Response accepted.

City of Manly

Schedule of Findings

Year ended June 30, 2004

II-C-04 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year. Also, utility collections were not reconciled to deposits.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – These procedures will be implemented as recommended.

Conclusion – Response accepted.

City of Manly

Schedule of Findings

Year ended June 30, 2004

Part III: Other Findings Related to Statutory Reporting:

III-A-04 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

III-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the public safety, public works, culture and recreation, community and economic development, general government, and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

III-C-04 Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

III-D-04 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-E-04 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Steve Reindl, Mayor, Owner of Reindl Repair	Maintenance	\$ 1,965
Mary Goeken, Council Member, Owner of Goeken Galaria.	Dog kennel	250

In accordance with Chapter 362.5(11) of the Code of Iowa, the two transactions do not appear to represent conflicts of interest. The amounts with each individual are less than \$2,500.

City of Manly

Schedule of Findings

Year ended June 30, 2004

III-F-04 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-G-04 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

III-H-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the cities investment policy was noted.

III-I-04 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolution requirements. However, it was noted that the 1998 Street Improvement General Obligation Bond principal and interest payments were made from the Road Use Tax Fund.

Recommendation – Chapter 384.4 of the Code of Iowa states in part that general obligation payments be recorded in the Debt Service Fund.

Response – We will transfer the funds to the Debt Service Fund in the future.

Conclusion – Response accepted.

III-J-04 Financial Condition – The Special Revenue Fund, the Housing Rehabilitation Account had a deficit balance at June 30, 2004 of \$5,179.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – The City will investigate alternatives.

Conclusion – Response accepted.

City of Manly

Required Supplementary Information

Other Supplementary Information

Basic Financial Statement